

PRELIMINARY ANALYSIS

OF THE IMPACT OF

PRESIDENT BUSH'S

FISCAL YEAR 2007 BUDGET

ON NEW JERSEY



February 9, 2006

OFFICES OF

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N E W J E R S E Y

PRESIDENT BUSH'S BUDGET: SHORTCHANGING NEW JERSEY AND OUR FUTURE

On Monday, President Bush released his 2007 budget. The budget is a statement of our national values and national priorities. When we decide what to fund and what to cut, we are making the surest statement of what we believe is important, what we believe is right, and what we believe is worth fighting for.

In this budget, the President has chosen to protect wealth over opportunity, today's wants over tomorrow's needs, and empty rhetoric over real solutions. The American people and the people of New Jersey want honest leadership, but this budget chooses Enron accounting gimmicks.

In the State of the Union, the President claimed he was committed to strengthening our economy and ensuring opportunity for all Americans. This budget was his chance to put his money where his mouth is, but instead, the President chose to shortchange New Jersey's and America's future.

- ❖ The budget eliminates 141 programs for a total of \$14.5 billion in cuts, which are largely health and education programs.
- ❖ The budget assumes unspecified draconian spending cuts of 16% after inflation beyond 2007. The President did the same thing last year and did not come even close to meeting his target for these unachievable cuts in 2007. To achieve cuts of this magnitude, ALL of the following would be required:
 - Eliminate the COPS program, taking 4,800 police officers off the street in New Jersey.
 - Freeze Pell Grants, reducing aid to more than 115,000 New Jersey students who use the grants to pay for college.
 - Completely eliminate health care for the 552,395 veterans in New Jersey.
 - Cut food stamp payments for 150,000 New Jerseyans by 50%.

DEFICIT

The President's own budget projects record deficits and debt: a \$423 billion deficit in 2006, which would be the largest deficit in history.

- ❖ President Bush's policies have caused the largest fiscal reversal in the history of our country – more than \$650 billion – from a \$236 billion surplus in 2000 to a projected \$423 deficit this year.
- ❖ Extending the President's tax cuts will cost \$2 trillion over the next 10 years not including interest and required fixes to the alternative minimum tax, every penny with borrowed money.
- ❖ The budget projects a crushing interest burden. Even using the President's own phony numbers, interest on our national debt will be \$473 billion per year by 2011. That means \$1534.02 of every New Jersey's taxes will be going just to pay interest.

COMPETITIVENESS & INNOVATION

Despite paying lip service to competitiveness, the President has yet to provide funding for programs that help our companies gain a competitive edge and continues to cut funding for programs that encourage technological innovation.

- ❖ President Bush's so-called "American Competitiveness Initiative" is largely just a repackaging of other programs: \$4.6 billion of the \$5.9 billion proposed for next year, or 78%, is to extend the already-enacted research and development tax credit.
- ❖ The budget would cut the Manufacturing Extension Partnership by 55%, a tremendously successful program that helps manufacturers become competitive, from \$108 million to \$46 million. This critical program helped 164 small and medium sized New Jersey manufacturing firms complete 383 projects in 2005, saving and creating more than 700 good, high-paying, manufacturing jobs. The government's \$1.675 million investment in this program in New Jersey had a \$60 million effect in reduced costs and increased sales.
- ❖ In a further blow to competitiveness, the President has again proposed to eliminate the Advanced Technology Program (ATP), which makes competitive matching grants to businesses to do high-risk, high-reward R&D. New Jersey is the 5th largest recipient of ATP funds in the nation, earning \$110 million since the inception of the program. ATP has more than paid for itself over time, providing \$18 billion in economic growth on \$2.1 billion in investments.

- ❖ Once again, Bush has proposed to completely eliminate the \$20 million SBA Microloan Program, which helps struggling entrepreneurs secure loans to start their own businesses. Last year, 124 New Jersey businesses received \$2.5 million of this creative funding.
- ❖ The budget cuts job training for the sixth year in a row and cuts Job Corps by \$55 million. This could mean devastating cuts for New Jersey's successful Edison Job Corps, which helps 750 disadvantaged youth gain job skills every year. In all, the Bush budget provides inadequate funding to help New Jersey's 213,000 unemployed to find new jobs.

TAXES

This budget continues the administration's precedent of taking from middle- and lower-income families and providing breaks to those in the nation's highest income brackets. While calling for \$15 billion in domestic discretionary spending cuts, this budget makes extending the tax cuts a priority, at a cost of over \$3 trillion.

- ❖ Making the tax cuts permanent plus required alternative minimum tax (AMT) reforms will add \$3.4 trillion to our national debt. Of the President's tax cuts, approximately 1/3 will go to the wealthiest 1% of Americans. Americans with an income of over \$1 million will get a tax cut averaging \$136,398, while those in the bottom 20% of the income distribution, who earn an average of \$10,264, get an average cut of \$19.
- ❖ The budget includes only 2.3% of the \$864 billion (plus \$182 billion in interest) over 10 years it will cost to fix the AMT, which will hit millions of middle-class New Jerseyans. Without a fix, more than half of all taxpayers with incomes of \$75,000-100,000 and 80% of all taxpayers with incomes between \$100,000-200,000 will be subject to a higher tax.

EDUCATION

The President's budget proposes the largest cut to federal education funding in the 26-year history of the Education Department – a \$2.1 billion, or 3.8%, reduction. This comes as schools are still struggling to meet the requirements of the No Child Left Behind Act.

- ❖ The Bush budget underfunds the No Child Left Behind Act by \$15.4 billion, leaving New Jersey to face a \$328 million shortfall.
- ❖ New Jersey will lose \$3.8 million in critical Title I funds, which will leave behind 70,000 New Jersey students who would be served in a fully funded Title I program.

By failing to adequately fund its special education commitments, the Bush administration leaves 230,000 of New Jersey's most vulnerable students out in the cold, forcing New Jersey taxpayers to foot the bill.

- ❖ By underfunding IDEA, Bush's budget leaves New Jersey \$192 million short, which will increase New Jersey's property tax burden and prevent schools from providing the services that special education students are guaranteed by law. In other words, the Bush budget undercuts students with special needs in New Jersey by about \$835.65 per disabled student.

By shortchanging afterschool programs by \$1.5 billion, the budget leaves behind 2 million students, 41,000 in New Jersey, who were promised services under No Child Left Behind.

- ❖ The \$32 million cut to 21st Century Community Learning Centers will mean the 14 centers across New Jersey will be even more strained for resources.

In addition, the budget eliminates 42 education programs that benefit New Jersey schools, including the Safe and Drug-Free Schools program, which funds drug and violence prevention activities in our nation's schools, the school dropout prevention program, civic education, arts in education, and education technology.

HIGHER EDUCATION

While the President talks about increasing our nation's competitiveness, he provides no new initiatives to help ensure young people attend college and no major funding increases to ensure they have access to postsecondary education.

- ❖ The Bush budget freezes the maximum Pell Grant at \$4,050 for the fifth year in a row, causing the real value to decrease by \$563 in the last four years. The average Pell Grant, which used to cover 80% of the average annual cost of tuition, now covers less than half the cost of a four-year public college.
- ❖ The average Pell Grant award will increase by a meager \$18, which will do nothing to help over 115,000 New Jersey Pell recipients with the rising cost of tuition. New Jersey students are facing an 8 percent tuition increase and tuition costs that are nearly \$2,700 higher than the national average. As a state, New Jersey's share of Pell funding will be lower than it was in 2003.
- ❖ The Bush budget again proposes eliminating Perkins loans, which benefit more than 14,000 low-income students in New Jersey and provides loan forgiveness for Perkins borrowers serving in law enforcement, education, or nursing.
- ❖ New Jersey would lose nearly \$27 million in vocational and tech-prep education funds that support innovative career and technical education programs for high school and community college students.
- ❖ The budget freezes the number of work study awards, which would still be below the 2004 level. These awards, funded both by institutions and the federal government, give nearly 15,000 students in New Jersey some financial aid in return for working a part time job.

HOUSING

The President's budget shortchanges New Jersey communities by reducing crucial funding for housing assistance, community development, and revitalization.

- ❖ The administration is calling for a 30% cut to weatherization assistance, which would cut weatherization assistance to New Jersey by nearly \$1.6 million, meaning up to 600 low-income New Jersey families won't get their homes weatherized. On average, weatherization permanently reduces heating bills by 20 to 40% for low-income families.
- ❖ The budget cuts Community Development Block Grants for New Jersey by \$20 million, leaving New Jersey property taxpayers to make up the shortfall.

- ❖ Over \$1 billion dollars have been pumped back into revitalizing New Jersey's neighborhoods through the HOPE VI program. The President has again proposed eliminating this program, which will deprive communities most in need of the chance for renewal.
- ❖ The Bush budget slashes the federal lead abatement program, which helps states eliminate lead-based paint in housing, by 23%. New Jersey is estimated to have as many as two million homes that contain toxic lead, including nine out of every ten homes in the City of Newark. According to some estimates, up to 50% of Newark's children may be affected by lead-poisoning. Without federal funding, the costs of lead abatement – about \$15,000 per unit – will be passed on to states and localities.

HEALTH CARE

In the State of the Union, the President made reference to the health care crisis in this country, but his budget fails to address the access and affordability problems facing New Jersey families.

- ❖ While cutting Medicaid and Medicare, the budget includes \$87 billion in new tax incentives to expand Health Savings Accounts (HSAs), a solution only for the healthiest and wealthiest in our society. The budget makes no serious attempt to expand access to health insurance for the 1.1 million New Jerseyans without coverage.
- ❖ The President's HSA proposal could actually increase the numbers of uninsured by destroying what's left of the employer-based insurance market, leaving the sick and less affluent to find affordable comprehensive coverage on their own in the more expensive individual market.
- ❖ Medicaid and the State Children's Health Insurance Program would lose \$5 billion over five years and \$12 billion over 10 years, cuts that mean 1 million New Jerseyans will get reduced access to comprehensive, vital health care services. Also, an estimated 264,129 children in New Jersey – 11.5% of all New Jersey children – are uninsured. Any cuts or caps in federal funding for Medicaid and the SCHIP would increase this number.
- ❖ Heart disease, stroke and cancer continue to be the leading causes of death in New Jersey, yet National Institutes of Health funding dedicated to the research and training for these diseases have been cut. Our state has the 9th highest incidence of cancer in the nation – it has been estimated that over 43,000 new cancer cases were diagnosed, and over 18,000 New Jerseyans lost their lives to cancer in 2005.

NUTRITION

- ❖ The budget cuts \$2.8 billion from the Food Stamp program next year, and would deny coverage to anyone not already receiving welfare payments or Social Security SSI, which would affect 250,000 people. Cuts are the last thing New Jersey recipients need – of the 300,000 families that are eligible for food stamps, only 150,000 actually receive them.

SENIORS

The President's budget hits New Jersey seniors from all directions. The President returns to the same failed proposals we've seen in the past – privatizing Social Security and cutting \$36 billion from Medicare. On top of that, he cuts critical housing, nutrition and health care programs for the elderly.

- ❖ The President proposes to raid every penny of the Social Security surplus for the next five years in order to give tax breaks to the special interests and the wealthy.
- ❖ The President has again recklessly proposed spending \$712 billion to privatize Social Security, which would add \$5 trillion to the national debt over the first 20 years, risk Social Security benefits in the stock market, and result in benefit cuts of 30% or more for the future New Jerseyans who receive Social Security benefits.
- ❖ The President plans to cut housing assistance for seniors by 26% and for people with disabilities by 50%.
- ❖ The budget eliminates funding for Alzheimer's disease demonstration grants and preventive health services for seniors, and cuts funding for the National Family Caregiver Support Program and Meals on Wheels. This is bad news for New Jersey's 1 million seniors and their caregivers.
- ❖ The President proposes to cut Medicare spending by \$36 billion over 5 years, which would cost New Jersey \$1 billion, and negatively impact over 1 million New Jerseyans. Spared from the budget axe are current subsidies to insurance companies.
- ❖ The proposed Medicare cuts would result in:
 - Cuts to hospital reimbursement rates from 3.4% to slightly below 3% (estimated cuts of \$20 billion over five years);
 - Increased monthly premiums for higher income beneficiaries under Medicare Part B (currently, Medicare charges \$88.50 a month for this

coverage), which covers physician and outpatient care. The income requirements set to be implemented under current law would not be linked to inflation, so while only about 3% to 6% of Medicare beneficiaries would pay higher premiums in the near term, many more would be affected in the future;

- A freeze in payments to nursing homes and home health agencies, as well as lower payments for the use of oxygen equipment

TRANSPORTATION

Again, the President has shown his lack of support for Amtrak, cutting funding by \$400 million. In addition, he has targeted airline passengers with another tax on the price of a plane ticket.

- ❖ The President wants to slash Amtrak's budget by \$400 million, or 30%. The President's proposal of \$900 million is just half the \$1.8 billion Amtrak needs, and would result in an Amtrak shutdown stranding over 80,000 New Jersey commuters who depend on the Northeast Corridor to get to work every day.
- ❖ The President has proposed raising the per-flight airline security fee by \$2.50 for a per-flight total of \$5. This is a new tax on the 30 million passengers who fly in and out of Newark Airport each year.

SECURITY

The administration's statement that this budget focuses on homeland security is bogus when you look at the real numbers that impact security for New Jerseyans at home.

- ❖ Defying the will of over 70 Senators, the budget proposes cutting the Army Guard and Army Reserve personnel strength. After losing 20% of its strength last year, the New Jersey National Guard could now lose an entire battalion. The New Jersey Army National Guard is an effective, cost-efficient military force that has proven itself abroad in the War on Terrorism, and at home in a number of domestic and homeland security emergencies.
- ❖ The President cuts funding for construction at New Jersey's military bases by \$77 million, leaving only \$35.5 million for 2007.
- ❖ While the budget takes a step closer to dividing homeland security funding more fairly, it still falls short of the goal of allocating all homeland security funding based solely on risk and threat, as the 9/11 Commission recommended.

- ❖ After a \$250 million cut last year, the President's budget again cuts Homeland Security grants to states, high threat urban areas, and first responders. The President calls for a cut of \$395 million to our nation's first responders. Even worse, President Bush proposes to eliminate grants for the Law Enforcement Terrorism Prevention program.
- ❖ New Jersey has already seen its share of homeland security funds decrease in the past two years. In 2005, New Jersey received \$60.8 million from the Homeland Security Grant program, a decrease from the \$90 million in 2004. New Jersey's cities have suffered as a result, with Newark getting a 17% cut and Jersey City seeing a 61% cut last year.
- ❖ The President's budget also cuts the Assistance to Firefighters Grant Program from \$655 million to \$294 million, once again hurting our first responders, our most important first line of defense in a terrorist attack or natural disaster.
- ❖ The budget cuts the COPS program by an astounding 79%, a \$376 million cut from last year. Included in these cuts is \$140 million Congress provided last year for critical law enforcement technologies and interoperable communications. The COPS program has kept New Jersey safe by putting 4,800 more policemen on the streets.

MILITARY

This administration claims that their top priority is fighting the war on terror and in Iraq. However, they've shortchanged security, don't account for the cost of the war in Iraq, and abandon our nation's veterans returning from combat by making them pay more of their health care costs.

- ❖ The President has again proposed nickel-and-diming veterans with new fees on their healthcare. His budget calls for a new \$250 enrollment fee and nearly doubling drug co-pays from \$8 to \$15 for some veterans based on their income and disability levels. These proposals adversely affect many of the more than 550,000 veterans in New Jersey.
- ❖ The proposal also imposes new costs on TRICARE beneficiaries, although it does not specify what these costs are. Early indications pointed to as much as a tripling of enrollment fees and co-pays for the nearly 100,000 New Jersey military men and women and their families eligible for TRICARE.
- ❖ The President pays lip service to supporting our troops, but refuses to budget for the \$387 billion CBO says will be necessary to continue to fight the war in Iraq.

ENVIRONMENT

The Bush administration has shown that it is actively hostile to preserving our environment, which cuts funding for the EPA, continues to shift the cost of environmental cleanup from polluters to taxpayers, and cuts funding for conservation and clean water.

- ❖ For the third year in a row the Bush administration proposes to cut funding for the Environmental Protection Agency. This year the proposal is to cut more than \$300 million dollars, giving EPA its lowest level of funding since 1999.
- ❖ The administration has again refused to propose reinstatement of the “polluter pays” tax on chemical and oil companies to pay for cleanup of the nation’s worst hazardous waste sites. Because the tax has not been reinstated, taxpayers pay a larger share for cleanups. New Jersey has the most Superfund sites in the country, but the administration proposes to cleanup only 40 sites nationwide this year, half the number of sites that were cleaned up each year in the late 1990’s.
- ❖ The President’s budget shortchanges conservation efforts for the Highlands Region, requesting only \$2 million. Congress overwhelmingly supported providing \$10 million per year for land conservation in this ecologically sensitive region.
- ❖ Once again, the President is trying to slash the Land and Water Conservation Fund, which provides money for conservation activities throughout the State. The budget proposes a 25% cut in federal funding and the complete elimination of the state grant program, which allows New Jersey to leverage federal funds for conservation purposes. Since 2001, the President has cut funding for the LWCF by nearly 80%, slashing the New Jersey conservation budget by millions of dollars.
- ❖ The Administration’s budget will slash the Clean Water State Revolving Fund by nearly \$200 million. For New Jersey, this means a cut of \$8 million. The CWSRF is used to provide loans to communities to make upgrades to their water infrastructure. These funds are critical to ensure that the waters used for drinking, swimming and other recreation are free of untreated sewage and other contaminants.